

This report is divided into two parts:

The first consists of items on situations where developments may occur in the near future.

The second part consists of status reports on other important situations where critical developments are not expected soon.

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PEIPING REJECTS CEASE-FIRE
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Peiping has rejected the proposal for a UN-sponsored cease-fire in the China area, but this position is not necessarily final.

SUPREME SOVIET MEETING
SCHEDULED FOR FEBRUARY. Page 9

The convocation of the regular spring meeting of the Supreme Soviet on 3 February, more than a month earlier than usual, suggests that the USSR has something important to communicate to its people and possibly to the rest of the world as well.

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PART I

COMMUNIST ATTACK ON TACHENS
POSSIBLE AT ANY TIME

Although the situation in the Chinese offshore islands has been fairly quiet since 18 January, major Communist attacks on islands of the Tachens group are possible at any time prior to the evacuation of Nationalist forces there (see map, p. 7).

Communist air and sea reconnaissance in the Tachens area is following a pattern similar to that observed just before the attack on Ichiang.

The Communists are capable of a large-scale military effort to disrupt an American-assisted withdrawal from the Tachens. While it is believed unlikely that the Communists would deliberately attack American forces engaged in evacuation of the Nationalist garrison in the Tachens, the possibility of a serious incident cannot be excluded.

Peiping's forces may be capable of overrunning the Matsu Islands against Nationalist opposition alone, and might move quickly against these islands while Nationalist and American forces are occupied in the Tachens. Peiping seems more likely, however, to undertake probing actions aimed at testing American intentions regarding defense of the Matsus.

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Probing in the Matsu area might take the form of attacks on Nationalist shipping by Communist patrol craft, or action by torpedo boats, or air harassment, or shelling by artillery to the north.

The Communists have only one army and supporting elements totaling about 60,000 troops in the area opposite the Quemoy, and are unlikely to attempt an invasion of the Quemoy--where there are more than 50,000 Nationalist troops--without moving two more armies into position. The Communists would also probably want strong air and naval support, not now available, for a Quemoy operation.

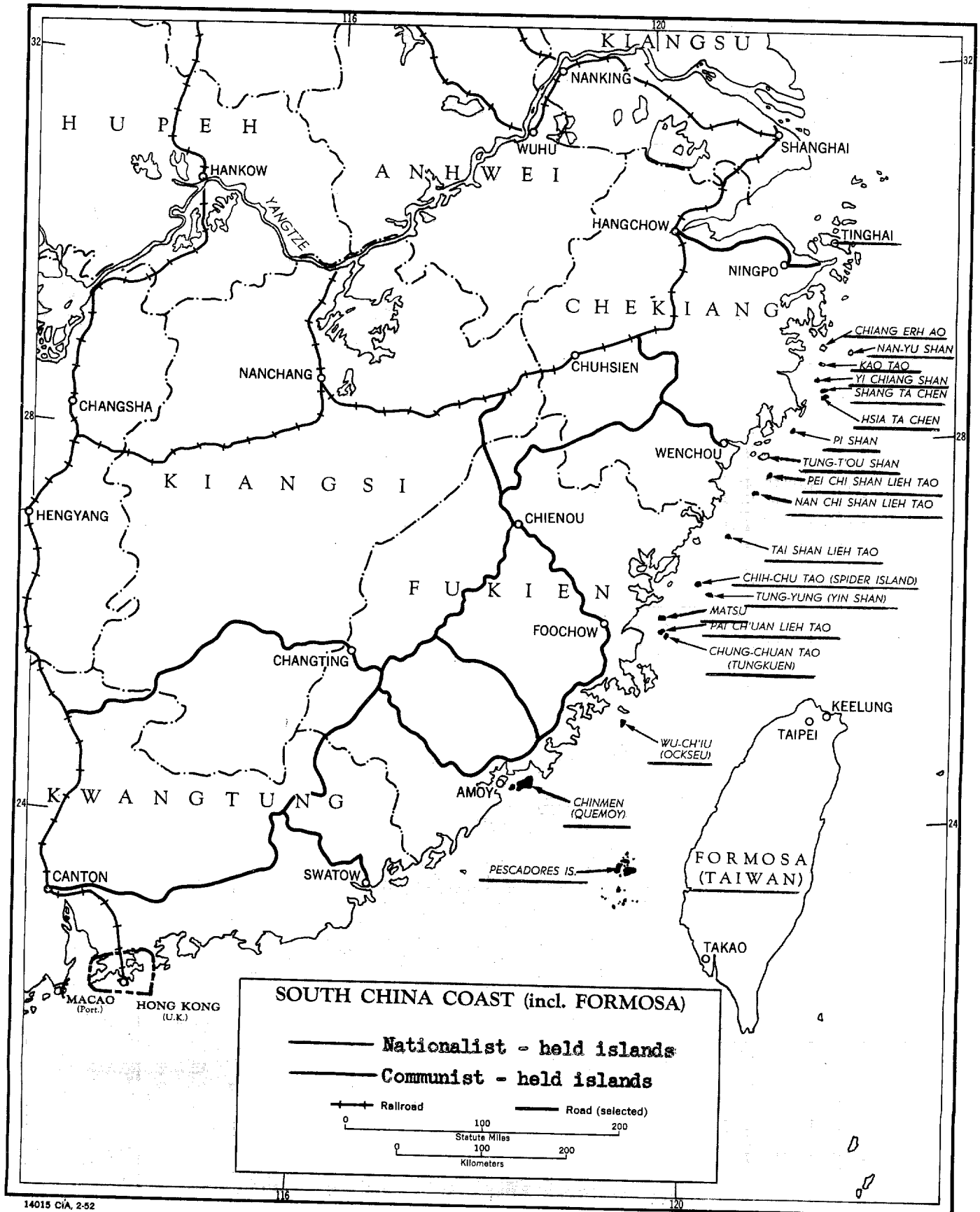
In the meantime, renewed Communist probing actions in the Quemoy area are expected. This might mean heavy shelling from numerous artillery positions near the Quemoy, use of torpedo boats and other craft, or invasion of lightly held minor islands of the group.

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PEIPING REJECTS CEASE-FIRE
BUT MIGHT REVISE POSITION

Chou En-lai on 24 January emphatically rejected any "so-called cease-fire with the traitorous Chiang Kai-shek clique," reaffirming Peiping's consistent position that the "liberation" of Formosa and other Nationalist-held territory is an "internal affair" in which foreign interference will not be tolerated.

Chou also induced Burmese premier U Nu to withdraw a proposed statement endorsing the call for UN action to bring about a cease-fire and suggesting formation of an Asian commission to remove the basic causes of the conflict.

The Chinese Communist position is not necessarily final, as Peiping might come to believe that agreement to a cease-fire would lead to a seat in the UN and economic concessions, as well as an opportunity to annex Formosa by diplomatic means.

Taipei, long alert to any development which might limit its sovereignty, partition China and eliminate hopes for a return to the mainland, has also rejected a cease-fire.

Although Taipei's freedom of action is restricted by the current mutual defense treaty with the United States, public acceptance of a cease-fire would probably further depress Nationalist morale. Chiang would probably ask a high price for co-operation in a cease-fire, although under American pressure he would have little choice but to agree.

Pravda has attacked President Eisenhower's 24 January message to Congress, and has denounced what it asserts are Washington's motives in seeking a cease-fire. Indian opinion has been noncommittal, while Prime Minister Ali of Pakistan has endorsed the idea. British and Western European comment has been generally favorable, although expressing doubts that a cease-fire can be achieved.

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SUPREME SOVIET MEETING
SCHEDULED FOR 3 FEBRUARY

The convocation of the regular spring meeting of the Supreme Soviet on 3 February, more than a month earlier than usual, suggests that the USSR has something important to communicate to its people and possibly to the rest of the world as well.

The announcement of the meeting came in the midst of a number of unusual developments connected with foreign policy, internal economic policy, and the status of individual members of the collective leadership, all of which seem inextricably linked together.

Most notable of these developments is the apparent recent decision to strongly emphasize heavy industrial development rather than the consumers' goods program. Propaganda on this subject has stressed the necessity for the development of heavy industry in connection with the defense of the USSR and the paramount need for vigilance while the "forces of imperialist reaction, armed to the teeth and further arming themselves, are developing plans for a new world war." It has also castigated the views of several economists.

Coincident with the latest Pravda article on heavy industry was the announcement that Deputy Premier A. I. Mikoyan had relinquished his position as minister of trade. Though this may be a normal shift, its timing may indicate that Mikoyan is being censured for his views on consumers' goods production.

There has also been a curious return to prominence of A. A. Andreyev, former member of the politburo and former deputy premier, who handled agricultural policy prior to Khrushchev. Further key personnel shifts may come to light at the Supreme Soviet meeting.

Another striking development has been the return to Moscow of several diplomats, notably the ambassadors to the United States, Great Britain, France, East Germany, and probably Austria, presumably either to help formulate current policy or to get personal instructions on its implementation.

Their return follows the conciliatory Soviet statement on Germany on 15 January which had little effect on Western governments. This announcement has since been followed by a Soviet statement declaring the state of war with both East and West Germany to be at an end.

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PART II

STATUS REPORTS
ON OTHER SITUATIONS

Americans Held in Communist China: Chou En-lai's offer to allow relatives of American citizens held in Communist China to visit them supports the view that--as of 21 January--Peiping intended to release at least some of these persons in the next few months.

Peiping's position on this matter may be entirely contingent, however, on its view of President Eisenhower's message to Congress on 24 January. In the light of the President's message, Peiping--which has said repeatedly it cannot be "intimidated" into freeing the airmen--may feel that to release any of them in the near future would be interpreted as a sign of weakness.

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The Afro-Asian Conference: Official invitations to the conference have at last been dispatched and India and Indonesia are pressing hard for favorable responses.

The Indian chairman of the International Control Commission in Hanoi has urged the foreign minister of South Vietnam to attend; the Indonesian minister to Syria--resident in Cairo--has made a special trip to Damascus to make a similar request of the Syrian premier; and the American embassy in Tehran reports that Iran undoubtedly is being pressed by local Asian representatives.

While India--and Communist China--will be represented in Bandung by well-briefed delegations, lack of preparation on the part of other nations planning to attend is glaringly apparent.

Japan is going to wait until after its late February elections before deciding what to do. Turkey remains indifferent. Pakistan neither has plans nor has given serious thought to the conference.

Several countries have indicated they would welcome American advice. Premier Ali of Pakistan has suggested that the United States send experts to Indonesia, ostensibly as reporters, to advise him and others in the pro-Western group.

A Communist-line newspaper in Djakarta reports that Ho Chi Minh himself will lead the Viet Minh delegation to the conference. This has not been confirmed.

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Ratification of Paris Accords: Pending clarification of Western Europe's reaction to current events in the Far East, the chances for ratification of the Paris accords by the French Council of the Republic remain good and action still seems likely in mid-February.

The possibility that a decision may be postponed until the deadline for council action on 11 March, and the danger that the accords will be returned to the National Assembly in amended form have, however, both been increased by the growing threat of a cabinet crisis over North Africa.

The rising opposition to the premier on a number of disparate issues has encouraged his enemies to focus on the deterioration in the North African situation and insist on a full-scale assembly debate starting 2 February. Recent reports of definite progress on the Tunisian negotiations will strengthen the premier's hand in the

debate, but his main hope of survival rests on the unwillingness of many of his opponents to overthrow him before the council acts on the accords.

Mendes-France apparently failed to strengthen his government's position in parliament by his cabinet reshuffle on 20 January. The decision of the WEU arms pool negotiators to continue discussions on 31 January after a ten-day recess is, however, a favorable factor.

Prospects for ratification in all the other WEU countries remain good and have not altered appreciably in the past week.

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"Liberation" of Formosa Plans: The Chinese Communists will be able to take Formosa by combining "large-scale bombing" with an "uprising by the people," Peiping radio boasted on 19 January.

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Chinese Communist propaganda has continued to tell Nationalist forces, both on the offshore islands and on Formosa, that they have no future with Chiang Kai-shek but a "glorious" future on the mainland. In broadcasts to its own armed forces, Peiping has continued to suggest that further preparations are necessary before a Formosa operation can be launched.

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South Vietnam: Premier Diem's slow progress in consolidating his regime may be vitiated if the French authorities in Paris persist in their efforts to "explore alternatives to Diem," to persuade Bao Dai to return to Vietnam against Diem's wishes, and to delay application of the understanding reached by Ely and Collins last December on American training of an autonomous Vietnamese army.

In the face of accumulating evidence to the contrary, the French have refused to budge from their position of several months ago that Diem is hopelessly incompetent and unpopular. They have indeed encouraged the current antigovernment machinations of ex-premier Tran Van Huu, whose incompetence and unpopularity are a matter of record. French encouragement of Huu fits in with the Saiteny scheme of dealing exclusively with the Viet Minh, since Huu has made it known that he could adapt himself to such a policy.

Bao Dai is currently under heavy pressure by anti-Diem forces, including French officials, to return to Vietnam. Diem is trying to dissuade him from returning, fearing an increase in intrigue, a disruption of government affairs, and the loss of the spotlight himself.

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Laotian-Pathet Lao Talks: The current talks between the royal government of Laos and the Communist-backed Pathet Lao will probably witness further efforts by the government to achieve the Communists' "integration into the national community," even if this requires political concessions to the Communists.

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The conversations, which began formally on 18 January, are taking place against a background of continued Communist military activity in the northern provinces in defiance of the cease-fire agreement.

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Japan-Orbit Relations: Moscow made its first direct move toward resumption of diplomatic relations with Japan on 25 January by presenting, through its unofficial mission in Tokyo, an unsigned and undated document to Prime Minister Hatoyama. It stated the USSR is prepared to nominate representatives for negotiations to be held either in Tokyo or Moscow aimed at the normalization of relations.

The timing of the presentation--on the day after the dissolution of the Diet--suggests that the Soviets may publicize their approach in an attempt to ensure that the question of relations plays an important part in the forthcoming election campaign. The Hatoyama government, which immediately sought American advice, may plead that its caretaker status precludes any official commitments prior to the election on 27 February.

While Tokyo has indicated there are no serious impediments to bilateral negotiations, it would be faced with a difficult decision if Moscow should insist that Communist China be included in the discussions. From Moscow's viewpoint, holding out the prospect of negotiations would appear to be more advantageous than unilaterally ending the state of war, as the Kremlin did in the case of Germany.

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Costa Rica-Nicaragua: The danger of an imminent clash between the armed forces of Costa Rica and Nicaragua was reduced on 25 January when an estimated 250 Costa Rican rebels along the border between the two countries crossed into Nicaragua and were interned.

This occurred shortly after the Organization of American States fact-finding commission in the area abolished the six-mile neutral zone along the border and Costa Rican troops prepared to move in to clean out the rebels. Nicaragua simultaneously had sent up troops to its side of the border. OAS observers remain in the area to report any violations.

Shortly before the rebels left Costa Rica, Nicaraguan president Somoza, in a threat which clearly revealed his close and continuing contact with the Costa Rican rebels, told the OAS commission that unless the Costa Rican government granted the rebels amnesty and returned their properties, Costa Rica would be faced with long and costly guerrilla warfare.

The committee was left with the conviction that Somoza would keep up his clandestine aid to the rebels as long as they continued hostilities. The committee emphasized to Somoza the need for confining and terminating the conflict. Early on 25 January Somoza backed down and apparently ordered the rebels to cross into Nicaragua.

Though defeated, the rebels are reported determined to try again.

Evidence of Guatemalan, as well as Nicaraguan, implication in the revolt is being uncovered in Costa Rica. Costa Rican officials are reported to be vengeful and in a mood to stir up unrest and dissension in Nicaragua and Guatemala if given an opportunity.

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Guatemala: Mounting unrest in Guatemala reached a climax on 20 January when the government announced it had suppressed a "Communist-directed" revolt involving military personnel. Several persons were killed and about 80 arrested. Colonel Elfego Monzon, who retains considerable prestige in the army and who shared power with President Castillo Armas until last September, was summarily shipped out of the country.

No evidence has appeared to support the government's claims that Communists were involved in the plotting. Dissatisfaction with the Castillo administration had been growing since last November and rumors of an impending coup have proliferated for some time.

Basically, the unrest seems due to the diversity of Castillo's initial support, which ranged from the extreme right to the anti-Communist left. Castillo failed to satisfy any of these elements completely.

Certain army leaders resent the influence of extreme rightists and proclerical elements around Castillo, and virtually all groups have been disappointed in the temporizing policies and administrative bungling which have characterized the administration's approach to the country's serious economic difficulties.

Castillo has, however, retained much of his initial wide personal popularity.

It is not clear whether those arrested are really believed by the government to have been involved in the plotting or whether the regime is cleaning up many sources of potential opposition. The latter is suggested by the expatriation of Colonel Monzon, who was probably not involved but who nevertheless is the army's strongest potential leader.

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French North Africa: Tension continues high in French North Africa despite some decrease in terrorism in Morocco.

General pessimism as to the outcome of the negotiations for autonomy--which have been under way in Paris since 11 September--is apparent in Tunisia. Although the press reports that Premier Mendes-France is trying to conclude the talks prior to the debate on North African problems in the National Assembly on 2 February, he probably does not expect to reach a settlement on Tunisia by that time. If the talks break down, resumption of widespread terrorism is anticipated.

Mendes-France may now reverse himself and review France's Moroccan policy instead of waiting for the completion of the Tunisian negotiations, according to a French spokesman in Paris. The premier is being strongly criticized in all quarters, including the National Assembly, on the Moroccan question.

The replacement of Governor General Roger Leonard of Algeria by Jacques Soustelle, a spokesman of the hard-core Gaullist group in the French National Assembly, is a concession to a powerful lobby of reactionary French settlers who have strongly criticized Leonard since the eruption of disorders on 1 November. While this change will reassure French Algerians, native Moslems are likely to become embittered. Nationalist opposition, despite police repression, is now likely to be intensified.

Meanwhile a major French military offensive by more than 5,000 shock troops has been launched against some 200 rebels isolated in the mountains of eastern Algeria.

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The Arab-Israeli Dispute: Egypt's decision to sentence to death two of the 13 Zionist spies tried on charges of espionage for Israel can be expected to precipitate a new crisis with Israel, which has displayed unusual concern over the trial.

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The death sentences may yet be commuted. Despite Israel's warning that war with Egypt might result if any of the accused were to be executed, armed conflict is not anticipated. Sharp frontier reprisals and a strong international diplomatic and propaganda campaign against Egypt would, however, likely result.

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Note: There are no significant new developments to report this week on the following situations:

Schism in Egypt's RCC

Syria

Burma

Indonesia

Yugoslav-Orbit Relations

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